

**HOUSE OF REPRESENTATIVES
COMMITTEE ON COMMERCE
SUBCOMMITTEE ON ENERGY AND POWER
FIELD HEARING ON H.R.655**

**ATLANTA, GEORGIA
APRIL 14, 1997**

**COMMENTS OF
THE ELECTRICITY CONSUMERS RESOURCE COUNCIL,
THE GEORGIA INDUSTRIAL GROUP
AND
PROCTER & GAMBLE**

**BY
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PROCTER & GAMBLE

RESTRUCTURING THE ELECTRIC INDUSTRY

GOOD MORNING AND THANK YOU FOR THE OPPORTUNITY TO SHARE OUR VIEWS ON THE ISSUE OF RESTRUCTURING THE ELECTRIC INDUSTRY. I AM SPEAKING ON BEHALF OF THE ELECTRICITY CONSUMERS RESOURCE COUNCIL (ELCON), THE GEORGIA INDUSTRIAL GROUP (GIG) AND PROCTER & GAMBLE (P&G). IN THE FIVE MINUTES THAT I HAVE TO FRAME ISSUES RELATED TO THIS COMPLEX TOPIC, I WILL FOCUS ON A FEW KEY THOUGHTS THAT I HOPE WILL MEET YOUR COMMITTEE'S NEEDS. I WILL LOOK FORWARD TO ANSWERING ANY QUESTION DURING THE Q&A.

LET ME BEGIN BY SAYING THAT WE SUPPORT THE RIGHT OF **ALL** CONSUMERS TO CHOOSE THEIR ELECTRIC POWER PROVIDER. IT IS OUR BELIEF THAT WHEN AN ADEQUATE NUMBER OF BUYERS AND SELLERS EXIST, THE FREE MARKET SYSTEM CAN SET AND CONTROL PRICES FAR BETTER THAN ANY GOVERNMENTAL AGENCY. OVER THE LAST EIGHTEEN YEARS, WITH THE HELP OF THE PUBLIC UTILITY REGULATORY POLICIES ACT (PURPA), A COMPETITIVE MARKET HAS EMERGED IN POWER GENERATION. INDEPENDENT AND PRIVATE POWER PRODUCERS HAVE DEMONSTRATED THAT THEY CAN

GENERATE POWER MORE CHEAPLY, EFFICIENTLY AND WITH GREATER RELIABILITY THAN TRADITIONAL UTILITIES.

NOT ONLY WILL THE CONSUMER BENEFIT; BUT, THE FREE MARKET SYSTEM WILL REWARD COMPANIES AND ORGANIZATIONS THAT PRODUCE HIGH QUALITY PRODUCTS THAT MEET CUSTOMER VALUE EXPECTATIONS. IT IS A DIFFICULT, IF NOT AN IMPOSSIBLE TASK, FOR ANY REGULATORY AGENCY TO MATCH THE EFFICIENCY OF THE MARKET IN CREATING VALUE.

IT IS OUR BELIEF THAT ALL UTILITY CUSTOMERS WILL BENEFIT FROM THIS INDUSTRY RESTRUCTURING. COMPETITION WILL FORCE ALL GENERATORS TO IMPROVE UPON THEIR OPERATING EFFICIENCIES, CUT COSTS IN ALL SEGMENTS OF EXPENSES, AND OFFER OPTIONS AND SERVICES THAT ARE TAILORED TO THE NEEDS OF THE INDIVIDUAL CUSTOMERS. THESE SAVINGS CAN RANGE FROM \$9 TO \$18 PER MONTH FOR THE AVERAGE RESIDENTIAL CUSTOMER,¹ TO THOUSANDS OF DOLLARS PER MONTH FOR THE VERY LARGE INDUSTRIAL CUSTOMER. SUCH SAVINGS, IN ALL LIKELIHOOD, WILL BE

¹SOURCE: "CUSTOMER CHOICE, CONSUMER VALUE" BY CITIZENS FOR A SOUND ECONOMY FOUNDATION

SPENT BACK IN THE ECONOMY TO PRODUCE JOBS AND ECONOMIC GROWTH. WE FIRMLY BELIEVE THAT ALL CLASSES OF CUSTOMERS SHOULD BE ALLOWED TO BENEFIT FROM THIS RESTRUCTURING. THE SAVINGS FROM LOWERING GENERATION COSTS SHOULD BE PASSED ALONG TO ALL CUSTOMERS WITHOUT UNDUE COST SHIFTING.

ELECTRICITY IS THE ONLY COMMODITY THAT IS USED AT ALL OUR MANUFACTURING FACILITIES. IT IS ALSO THE ONLY COMMODITY WHICH WE CANNOT PURCHASE ON THE OPEN MARKET. P&G IS VERY PROUD OF ITS SKILLS IN PURCHASING MATERIALS AND SUPPLIES AT PRICES THAT ALLOW OUR PRODUCTS TO BE PRICED COMPETITIVELY IN THE MARKET PLACE. FOR EXAMPLE, WHEN THE NATURAL GAS INDUSTRY WAS DEREGULATED AT THE WELL HEAD, WE BEGAN TO PURCHASE GAS DIRECTLY RATHER THAN THROUGH THE LOCAL UTILITY. THE SAVINGS WE ACHIEVED WERE DRAMATIC. WHILE WE BELIEVE THAT WELL HEAD DEREGULATION HAS LOWERED GAS COSTS TO ALL CONSUMERS INDIRECTLY, FURTHER SAVINGS WILL BE POSSIBLE TO OTHER CLASSES OF CUSTOMERS AS DEREGULATION TAKES PLACE BEHIND THE CITY GATE.

WE BELIEVE THAT SAVINGS WILL ACCRUE FROM ALL UTILITY GENERATORS, REGARDLESS OF THEIR CURRENT TARIFF PRICES. COMPETITION NOT ONLY FORCES THE HIGH COST PRODUCER TO BECOME MORE COMPETITIVE; BUT, ALSO HAS THE SAME IMPACT ON THE LOW COST PRODUCER. IN THE MARKET PLACE, WHERE THE DRIVE IS TO HOLD AND IMPROVE MARKET SHARE, THE LOW COST PRODUCER IS THE TARGET OR BENCHMARK. IF LOW COST PRODUCERS DO NOTHING TO IMPROVE THEIR OPERATIONS, THEY WILL SOON FIND THEMSELVES PASSED BY. HOW CAN THE LOW COST PRODUCER IMPROVE? IN ALL REGIONS OF THE COUNTRY THERE IS EXCESS POWER TO SELL. COMPETITION WILL NOT ONLY BRING THIS EXCESS TO THE MARKET; BUT, WILL FORCE POWER GENERATORS TO IMPROVE THEIR OPERATING EFFICIENCIES THROUGH HIGH PERFORMANCE WORK SYSTEMS AND IMPROVED MANAGEMENT. THESE REACTIONS WILL INCREASE THE SUPPLY² OF POWER AND DRIVE PRICES DOWN.

WE FEEL THAT THE BULK OF THE EFFORT TO RESTRUCTURE THE ELECTRIC INDUSTRY SHOULD BE ACCOMPLISHED AT THE STATE LEVEL. THERE ARE TWO PRIMARY REASONS WHY WE

²CITIZENS FOR A SOUND ECONOMY ESTIMATE THAT UTILITY CAPACITY UTILIZATION IS ONLY 52% OF ITS POTENTIAL. IN AN UNREGULATED MARKET, ANY INCREASE OF CAPACITY UTILIZATION WILL PRODUCE A DECLINE IN PRICE.

BELIEVE THIS. FIRST, MANY STATES HAVE ALREADY BEGUN THE PROCESS. SOME STATES HAVE PASSED LAWS REQUIRING RESTRUCTURING AND OTHERS ARE MOVING RAPIDLY IN THAT DIRECTION. SECOND, THE STATES PROVIDE A PROCESS WHEREBY REGULATORS CAN EXPLORE, CHALLENGE AND ADJUDICATE COSTS AND PRUDENCE ISSUES ASSOCIATED WITH EACH GENERATOR. WHILE WE RECOGNIZE THAT THIS STATE BY STATE PROCESS WILL PRODUCE MANY DIFFERENT APPROACHES, IT WOULD NOW BE DIFFICULT TO TURN THE CLOCK BACK AND "UNSCRAMBLE THE EGG."

WE ALSO BELIEVE THE FEDERAL GOVERNMENT HAS A KEY ROLE TO PLAY IN THE PROCESS. FIRST, IT SHOULD ENSURE THAT INTERSTATE TRANSACTIONS OF POWER CAN AND DO TAKE PLACE. NEXT, IT SHOULD SET A DATE CERTAIN BY WHICH ALL STATES HAVE THEIR RESTRUCTURING PLANS IN PLACE. THIRD, IT SHOULD ENSURE THAT THE COMPETITIVE MARKET REMAINS IN A COMPETITIVE MODE, INCLUDING ENSURING THAT TRANSMISSION ACCESS REMAINS OPEN AND NON DISCRIMINATORY AND THAT THE ISSUES RELATED TO PURPA AND PUHCA ARE SETTLED WHEN A COMPETITIVE MARKET IS ESTABLISHED. NEXT, THAT THE COORDINATION OF POWER FROM STATE TO STATE, REGION TO REGION TAKES PLACE WHILE MAINTAINING OR ENHANCING RELIABILITY. LASTLY, THE

FEDERAL GOVERNMENT NEEDS TO ENSURE THAT STATE AND FEDERAL REGULATORS ARE ARMED WITH THE TOOLS TO DEAL WITH THE CHANGES THAT THIS RESTRUCTURING WILL CREATE (E.G. THE POTENTIAL ABUSES OF MARKET POWER, THE ESTABLISHMENT OF REGIONAL I.S.O.s, ETC.).

AT THE START OF MY COMMENTS I STATED THAT THIS WAS A COMPLEX ISSUE. FORTUNATELY; HOWEVER, THE COUNTRY HAS GAINED ENOUGH EXPERIENCE FROM RESTRUCTURING OTHER INDUSTRIES THAT ADEQUATE MODELS EXIST TO EXPEDITE THE PROCESS. THE CALL FOR EXTENSIVE STUDIES, THE DESIGNING OF ELABORATE PILOT PROGRAMS, AND THREATS OF INSURMOUNTABLE PROBLEMS ARE ALL STALL TACTICS BY THOSE WHO ARE NOT REALLY INTERESTED IN CREATING AN EFFICIENT AND COST EFFECTIVE ELECTRIC POWER SYSTEM. RESTRUCTURING NEEDS TO BEGIN IN ALL STATES NOW, TO PRODUCE SAVINGS FOR ALL CUSTOMERS AND TO KEEP AMERICA COMPETITIVE IN THE WORLD MARKET PLACE. CUSTOMERS IN STATES THAT HAVE PASSED LAWS AND HAVE BEGUN THE PROCESS SHOULD NOT BE DENIED THE FULL SAVINGS POTENTIAL BY THE ACTIONS OF STATES THAT ARE NOT PROACTIVE.

THANK YOU FOR THE OPPORTUNITY TO SHARE THESE
THOUGHTS AND CONCEPTS. WHILE WE CAN SPEND HOURS
EXPLORING THE MANY FACETS OF THIS RESTRUCTURING,
THESE IDEAS WILL HOPEFULLY BE SEEDS FOR FOLLOW ON
QUESTIONS.

SUMMARY

POWER GENERATION SHOULD BE DEREGULATED.

**THE FREE MARKET SYSTEM CAN CONTROL PRICES
BETTER THAN REGULATION.**

**ALL UTILITY CUSTOMERS WILL BENEFIT FROM
COMPETITION.**

**LOW COST POWER SUPPLIERS CAN LOWER COSTS
EVEN MORE.**

**OTHER INDUSTRIES, SUCH AS NATURAL GAS, HAVE
RESTRUCTURED AND LOWERED COSTS.**

**THE STATES SHOULD BE THE VENUE FOR
RESTRUCTURING WITH THE FEDERAL GOVERNMENT
PROVIDING GUIDANCE AND DEADLINES TO INSURE NO
BARRIERS TO INTERSTATE COMMERCE.**

**WHILE A COMPLEX ISSUE, THE PROCESS OF
RESTRUCTURING SHOULD MOVE WITH DELIBERATE
HASTE AND CONFIDENCE THAT OTHER
RESTRUCTURED INDUSTRY MODELS ARE AVAILABLE
FOR GUIDANCE.**